SASKATCHEWAN CHAMBER of COMMERCE

September 6, 2017

The Honourable William Francis Morneau, P.C., M.P.
Minister of Finance
90 Elgin Street
Ottawa, ON K1A 0G5

RE: Consultations on Tax Planning Using Private Corporations

Honourable Minister:

On behalf of the Saskatchewan Chamber of Commerce, thank you for the opportunity to provide comments on the *Tax Planning Using Private Corporations* technical paper that was released by the Department of Finance Canada in July 2017. This letter is not intended to be a discussion on specific technical matters, but rather convey our concerns over the long-term impacts of the draft legislation being proposed.

By way of introduction, the Saskatchewan Chamber of Commerce is an advocacy organization that represents the interests of over 10,000 individual businesses and industry associations across the province through its chamber network. As the voice of business in the province, the Chamber has a responsibility to articulate to the Government of Canada the concerns of its members, many of whom will be directly impacted by the draft legislation.

Our members have very serious concerns with the tax changes being proposed. Despite the fact that these are some of the most sweeping changes to the *Income Tax Act* in the past 50 years, the Government of Canada is only offering a 75-day window to consult. Such an important issue lends itself to a much longer period for consultation.

Not allowing adequate time for a wholesome discussion on the merits of these changes is a disservice to our democratic process. Such a short consultation period does not offer stakeholders enough time to adequately determine the economic and financial impacts of the proposed changes. The timeline being proposed is wholly inadequate, given the scope of the proposed changes.

Not only is the 75-day timeframe inadequate, but the fact that the Government of Canada's announcement on the proposed tax changes was made during the middle of summer and accompanied draft legislation seems to suggest that the Government of Canada never intended to have a robust conversation with stakeholders over the merits of the proposed changes in the first place. This is disappointing to say the least. The Chamber recommends that the Government of Canada extend the stakeholder consultation period to at least March 31, 2018.

In addition to the inadequate consultation period, our members took offence to the overall *tone* of the technical paper and the accompanying media releases being circulated around the time of the announcement. Both the technical paper and the media releases seem to imply that a large swath of entrepreneurs avoid paying their fair share of taxes and that the Government of Canada must address "tax loopholes being exploited by the rich." This is blatantly false and misleading. While the proposed amendments were intended to target the top 1% of earners, the changes would apply to all private corporations in Canada, many of which are middle class, family-owned businesses who also employ the middle class.

The group most directly impacted by the proposed changes are entrepreneurs and small business owners who are the backbone of the Canadian economy. The unintended consequence of these proposals are that entrepreneurs and small business owners will be significantly worse off as a result. The Chamber strongly recommends that the Government of Canada complete a detailed financial and economic analysis on the impacts of the proposed changes as they relate to family-owned businesses.

Furthermore, our members were troubled by the highly-problematic example of comparing the tax burden of an incorporated business owner to that of a salaried professional. Page 13 of the technical paper illustrates a hypothetical comparison between two neighbours, Jonah, an incorporated business owner, and Susan, a salaried employee. Both make an annual income of $220,000, but Susan pays about $25,000 more in tax than Jonah.

Comparing a small business owner to a salaried employee is incredibly misleading. A salaried employee enjoys the benefits of robust labour protections, eligibility for Employment Insurance, statutory paid vacation days, has much greater assurance that they will be paid every two weeks, and most importantly, incurs none of the personal or financial risk that a small business owner does.

In contrast, small business owners start their enterprises with no guarantee of success and risk their own personal assets in the pursuit of an acceptable return. A small business owner often has their retirement savings tied up in the value of their business. As a consequence of this, small business owners *should* have tax planning vehicles available to them as an acknowledgement of the risk and sacrifice that they make.

Given these considerations, comparing a salaried employee to an incorporated business owner in this case is like comparing apples to oranges and serves to further divide Canadians. We recommend that the Government of Canada provide a more accurate and truthful comparison that will hopefully inform a full-scale impact analysis of the proposed changes.

A number of the proposed changes will lead to added administrative complexity and increased compliance costs for businesses. For example, under the Apportionment Method being proposed with respect to tracking passive investment income, businesses will have to adhere to more detailed record keeping requirements as different types of corporate income would have to be tracked separately. The time spent tracking separate income streams is time that could be better spent working on more pressing business matters. We fear that businesses will end up spending more time on administration and less time on growing their business and creating jobs. On these matters, we recommend that the Government of Canada complete an external review on the administrative impacts of these changes.

The proposed tax changes also have serious consequences for business succession planning. Using corporations and family trusts to facilitate the intergenerational transfer of shares to family members is a key component of prudent succession planning. The proposed changes would make selling shares in a corporation or trust to family members prohibitively expensive and would distort the market for business owners seeking to sell their businesses.

With roughly 70% of businesses expected to change ownership over the next decade, these tax changes will severely impact the ability for succession to occur. An unintended consequence is that many small businesses will simply close when third-party purchasers are unavailable.

In summary, the tax proposals outlined in the technical paper and draft legislation are unnecessarily broad, unworkably complex, and are disproportionately harmful to small businesses - most of which employ the middle class and are middle class themselves. Echoing the sentiments of the Canadian Chamber of Commerce and other business groups, the Chamber strongly urges the Government of Canada to retract these tax proposals and instead have a frank and open discussion about how Canadians are taxed and how to best support business growth and competitiveness.

Once again, thank you for the opportunity to provide comments on the technical paper. The Chamber would be pleased to discuss with you any of the comments or suggestions made herein. We look forward to your response.

Sincerely,

Steve McLellan, CEO

Cc:

The Hon. Perrin Beatty, President and CEO, Canadian Chamber of Commerce
The Hon. Ralph Goodale, Minister of Public Safety and Emergency Preparedness
The Hon. Steven Bonk, Minister of the Economy, Government of Saskatchewan
The Hon. Donna Harpauer, Minister of Finance, Government of Saskatchewan